

FS BANCORP, INC. (FSBW-NASDAQ)

Banking

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Raise Target Price to \$58 and Maintain Outperform Rating Despite 1Q19 Core Operating EPS Miss

RECOMMENDATION

Recommendation: We maintain our **Outperform** rating on shares of FS Bancorp, Inc. following core operating EPS of \$1.21 in 1Q19, which was below our estimate by \$0.08 per share. While net loans declined during the quarter due to elevated payoff activity, the company generated strong deposit growth and maintained an above-average core net interest margin (NIM). Credit quality is excellent and capital ratios remain robust. We are lowering our 2019E EPS and 2020E EPS, while raising our 12-month target price by \$2.00 to \$58.00, which provides total return potential of ~14%, including the current dividend yield of 1.2%.

- **1Q19 results:** FS Bancorp reported EPS of \$1.15 in 1Q19. Excluding merger-related costs of \$374,000, we place core operating EPS at \$1.21, which was below our estimate by \$0.08 per share due primarily to a lower-than-projected level of net interest income.
- **LQ decrease in net loans:** Net loans held for investment decreased by \$28.6 million, or 2.2% (8.7% annualized), on a LQ basis, driven by decreases in construction and development loans and construction warehouse lending, due to elevated pay-offs.
- **Strong LQ deposit growth:** Total deposits increased by \$47.3 million, or 3.7% (14.9% annualized), on a LQ basis, driven by increases of \$30.3 million in interest-bearing checking accounts and \$17.3 million in certificates of deposit.
- **Flat core NIM:** Excluding discount accretion on acquired loans, the core net interest margin was flat at 4.55% in both 1Q19 and 4Q18.
- **Decrease in nonperforming assets (NPAs):** Total NPAs decreased by ~\$1.7 million to \$3.2 million, or 0.19% of total assets, as of March 31. The company recorded net charge-offs \$1.3 million, or 0.37% of average loans annualized, in 1Q19, which resulted primarily from the charge-off of one commercial line of credit totaling \$1.2 million.
- **EPS estimates:** We are lowering our 2019E EPS by \$0.15 to \$5.43 and our 2020E EPS by \$0.19 to \$5.81.

Valuation: FSBW shares are currently trading at 9 .5x our 2019E EPS, 8.9x our 2020E EPS, and 130% of TBVPS compared with median valuations of 12.6x 2019E EPS, 11.7x 2020E EPS, and 170% of TBVPS for our West region coverage universe of 26 community banks and thrifts. While we believe some discount to the peer group is warranted given the company's emphasis on mortgage-banking revenue, which can be volatile depending on the movement of market interest rates and gain on sale premiums, we believe that the extent of the discount is unwarranted given the company's solid profitability metrics, including an above-average core NIM, strong loan growth over the LTM, excellent credit quality, and robust capital ratios. We are raising our 12-month target price by \$2.00 to \$58.00, which represents 10.7x our 2019E EPS, 10.0x our 2020E EPS, and 130% of pro forma TBVPS of \$44.70 one year from now. Our target price assumes that shares continue to trade reasonably in line with the current valuation based on TBVPS as TBVPS increases due to earnings.

APRIL 29, 2019 | 5:39 PM EDT
COMPANY COMMENT

Outperform 2

Target Price \$58.00 ↑ old: \$56.00

Suitability High Risk/ Growth

MARKET DATA

Current Price (Apr-29-19)	\$51.39
Market Cap (mln)	231
Current Net Debt (mln)	\$138
Enterprise Value (mln)	369
Shares Outstanding (mln)	4.5
30-Day Avg. Daily Value (mln)	\$0.5
Dividend	\$0.60
Dividend Yield	1.2%
52-Week Range	\$41.25 - \$66.40
BVPS	41.42
Tangible BVPS	39.57
ROAE	11.3%

KEY FINANCIAL METRICS

	1Q	2Q	3Q	4Q
GAAP EPS (\$, Dec FY)				
2018A				
	1.15	1.13	1.07	2.83
2019E	1.29	1.41	1.46	1.42
new	1.15 A	1.37	1.46	1.45
2020E	1.40	1.56	1.55	1.49
new	1.40	1.50	1.48	1.43
	2018A	2019E	2020E	
GAAP EPS (\$, Dec FY)				
old	6.29	5.58	6.00	
new	6.29	5.43	5.81	
P/E (GAAP EPS)				
	8.2x	9.5x	8.8x	
Revenue (mln) (\$, Dec FY)				
old	79	95	99	
new	79	93	97	

Source: Thomson One, Raymond James & Associates. Quarterly figures may not add to full year due to rounding.

Please read domestic and foreign disclosure/risk information beginning on page 8 and Analyst Certification on page 9.

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Raymond James Revised Earnings Estimates

As displayed in the following table, we are lowering our 2019E EPS by \$0.15 to \$5.43 and our 2020E EPS by \$0.19 to \$5.81 primarily to reflect a lower level of net interest income, as a smaller average earning asset base is only partially offset by a higher NIM assumption, and a modestly higher provision assumption in 2019, which are partially offset by a lower run rate for noninterest expense compared with our previous projections.

(\$ in millions)	2019E			2020E		
	Old	Current	Change	Old	Current	Change
GAAP EPS	\$5.58	\$5.43	(\$0.15)	\$6.00	\$5.81	(\$0.19)
Avg. Earning Assets	1,660	1,591	-4%	1,757	1,703	-3%
NIM	4.55%	4.62%	8 bps	4.52%	4.58%	6 bps
Net Interest Income	75.524	73.262	-3%	79.424	77.981	-2%
Provision	2.800	2.850	2%	3.200	3.200	0%
Core Noninterest Income	19.731	19.659	0%	19.285	19.318	0%
Operating Expense	60.453	58.743	-3%	61.085	60.673	-1%
Operating Efficiency	63%	63%	-25 bps	62%	62%	47 bps
Tax Rate	21.5%	21.7%	21 bps	21.5%	21.5%	0 bps
Diluted shares	4.502	4.518	0%	4.502	4.518	0%
Dividends per share	\$0.60	\$0.60	\$0.00	\$0.64	\$0.64	\$0.00
Reserves/Loans	0.87%	0.96%	9 bps	0.98%	1.09%	11 bps
NCOs/Avg. Loans	0.04%	0.12%	8 bps	0.04%	0.04%	0 bps

Acquisition of Anchor Bancorp

On November 15, 2018, FS Bancorp completed its acquisition of Anchor Bancorp (ANCB) in a stock and cash transaction for total consideration paid of \$64.6 million. Under the agreement, ANCB shareholders received a fixed consideration consisting of 0.2921 shares of FSBW common stock (725,518 issued) and \$30.8 million in cash. Ownership of the combined company is ~84% for FSBW shareholders and ~16% for ANCB shareholders. The excess of the fair value of the net assets acquired over the purchase price was recorded as a bargain purchase gain of \$7.4 million in 4Q18. The allocation of the purchase price is subject to adjustment during the measurement period not to exceed one year.

Lacey, Washington-based Anchor Bancorp and its subsidiary, Anchor Bank, served customers in Western Washington through nine full-service banking offices located in Grays Harbor, Thurston, Lewis, and Pierce counties, as well as one loan production office located in King County, Washington. At the closing of the transaction, As of March 31, acquired loans amounted to \$311.6 million, while assumed deposits were \$343.6 million. The acquisition increases FS Bancorp's operational scale and significantly expands the company's presence throughout Western Washington, while also increasing core deposits and enhancing the bank's ability to attract additional core deposit funding. Further, the acquisition creates scarcity value as the combination of FSBW and ANCB creates the third largest exchange-traded bank that is headquartered in Washington with less than \$10 billion in total assets.

Management is targeting cost savings amounting to 35% of Anchor's noninterest expense with 50% of the projected cost saves to be phased in during 2019 and 100% to be realized in 2020. Given the lack of overlap between the two branch networks, the cost saves are expected to be driven primarily by the consolidation of systems and back-office operations. Excluding pre-tax merger-related costs of ~\$7.3 million, the transaction was immediately accretive to tangible book value per share at closing and is expected to generate significant EPS accretion in 2019 and beyond. No potential revenue enhancements are included in the company's projections; however, the company expects the combined company to offer greater capital resources and an expanded array of products and services to its customers. The transaction should be attractive both strategically (increases operational scale and significantly expands the company's presence in Western Washington) and financially (immediately accretive to TBVPS and EPS) for FS Bancorp.

1Q19 Operating Results

FS Bancorp reported EPS of \$1.15 in 1Q19, compared with EPS of \$2.83 in 4Q18 and \$1.15 in 1Q18. Excluding merger-related costs of \$374,000, we place core operating EPS at \$1.21 in 1Q19, compared with core operating EPS of \$1.20 in 4Q18, excluding a bargain purchase gain of \$7.4 million related to the acquisition of Anchor Bancorp, merger-related costs of \$946,000, gains on the sale of securities of \$57,000, and assuming a core effective tax rate of 24.6%. Core operating EPS of \$1.21 in 1Q19 was below our estimate by \$0.08 per share. The miss compared with our estimate resulted from a lower-than-projected level of net interest income (\$17.7 million compared with our estimate of \$18.4 million), which was driven by a smaller-than-anticipated average earning asset base (\$1.53 billion versus our forecast of \$1.61 billion), a slightly higher-than-expected loan loss provision (\$750,000 compared with our forecast of \$700,000), a lower-than-estimated level of gains on the sale of loans (\$2.4 million compared with our estimate of \$2.5 million), and a higher-than-anticipated effective tax rate (22.5% versus our estimate of 21.5%), which were partially offset by a lower-than-projected level of noninterest expense, excluding merger-related costs (\$14.4 million versus our forecast of \$14.9 million). Noninterest income, excluding gains on the sale of loans, of \$2.2 million was in line with our estimate.

Guidance Tracker – FS Bancorp, Inc. (FSBW)**RAYMOND JAMES®**

Source	Category	Target Period	Trending	Guidance
2017Q4 Earnings	Loans	2019Y	—	Management noted that loan growth is seasonally weaker in 1Q and 4Q each year, while 2Q and 3Q typically experience higher rates of loan growth.
2019Q1 Earnings	Loans	2019Q2	—	Management noted that loan payoff activity in the construction and development segment has continued in 2Q19.
Acquisition Announcement	M&A	2019Y	—	Excluding pre-tax merger-related costs of ~\$7.3 million, the acquisition of Anchor Bancorp is expected to be immediately accretive to tangible book value per share at closing and generate significant EPS accretion in 2019 and beyond.
2018Q3 Earnings	NIM	2019Y	—	Management expects higher margin pressure during 2Q and 3Q as higher cost funds support seasonally stronger loan growth.
2019Q1 Earnings	NIM	2019Y	—	Management expects the core net interest margin to remain stable in the near term while discount accretion is expected to normalize to ~\$200,000 to \$300,000 per quarter.
2019Q1 Earnings	Noninterest expense	2019Q2	▲	Management expects acquisition costs to be in a range of \$1.2 million to \$1.4 million in 2Q19.
2019Q1 Earnings	Noninterest expense	2019Y	—	The company has scheduled the systems conversion for Anchor Bancorp on June 15, which is expected to generate quarterly cost savings of ~\$400,000.
2019Q1 Earnings	Tax Rate	2019Y	—	The company is targeting an effective tax rate ~21.5% in 2019.

Source: Raymond James research; company reports

LQ Decrease in Net loans

Net loans held for investment decreased by \$28.6 million, or 2.2% (8.7% annualized), on a LQ basis, and increased by \$478.3 million, or 59.4%, over the LTM. Excluding \$311.6 million of net loans as of March 31 that were obtained in the acquisition of Anchor Bancorp, net loans held for investment increased by \$166.7 million, or 20.7%, over the LTM. The \$29.2 million LQ decline in total gross loans was driven primarily by decreases of \$28.1 million in construction and development loans and \$23.8 million in construction warehouse lending, due to elevated payoff activity. Management noted that elevated payoffs in construction and development loans has continued into 2Q19. As shown in the table below, FS Bancorp's loan portfolio remains well diversified.

Loan Composition (Dollars in thousands)

	1Q19	%	4Q18	%	1Q18	%	Q/Q	Y/Y
CRE	\$ 208,607	16.1%	\$ 204,699	15.4%	\$ 61,956	7.6%	1.9%	236.7%
Construction and Dev.	\$ 219,229	16.9%	\$ 247,306	18.6%	\$ 143,611	17.6%	-11.4%	52.7%
Home Equity	\$ 40,714	3.1%	\$ 40,258	3.0%	\$ 23,563	2.9%	1.1%	72.8%
One-to-four-family (excludes HFS)	\$ 261,868	20.2%	\$ 249,397	18.8%	\$ 165,030	20.2%	5.0%	58.7%
Multifamily	\$ 102,997	7.9%	\$ 104,663	7.9%	\$ 52,431	6.4%	-1.6%	96.4%
Consumer loans	\$ 284,416	21.9%	\$ 275,473	20.8%	\$ 218,929	26.8%	3.2%	29.9%
Commercial and Industrial	\$ 137,325	10.6%	\$ 138,686	10.5%	\$ 104,612	12.8%	-1.0%	31.3%
Warehouse lending	\$ 41,914	3.2%	\$ 65,756	5.0%	\$ 47,563	5.8%	-36.3%	-11.9%
Total gross loans receivable	\$ 1,297,070	100%	\$ 1,326,238	100%	\$ 817,695	100%	-2.2%	58.6%

Source: Company data

*Percentages may not total to 100% due to rounding

Total loans held-for-sale (HFS), consisting entirely of 1-4 family residential mortgage loans, decreased by \$5.6 million on a LQ basis to \$45.6 million as of March 31. Originations of 1-4 family residential mortgage loans decreased by \$11.8 million, or 7.6%, to \$143.7 million in 1Q19 from \$155.5 million in 4Q18. Total 1-4 family loan originations in 1Q19 were comprised of 73.4% in purchase loans and 26.6% in refinance loans, compared with 80.1% purchase loans and 19.9% refinance loans in 4Q18. The company sold \$130.9 million of 1-4 family residential mortgage loans in 1Q19, down from sales of \$147.1 million in 4Q18.

Strong LQ Deposit Growth

Total deposits increased by \$47.3 million, or 3.7% (14.9% annualized), on a LQ basis, and by \$464.1 million, or 54.1%, over the LTM. Excluding \$343.6 million in assumed deposits as of March 31 from the acquisition of Anchor Bancorp, total deposits increased by \$120.5 million, or 14.1%, over the LTM. The LQ deposit growth was driven by increases of \$30.3 million in interest-bearing checking accounts and \$17.3 million in certificates of deposit (CDs), which were partially offset by a decrease of \$11.9 million in money market deposit accounts. Total non-retail certificates of deposit (comprised of brokered CDs, online CDs, and public funds) increased by \$3.4 million to \$130.9 million, or 9.9% of total deposits, as of March 31 from \$127.5 million, or 10.0% of total deposits, at December 31. As of March 31, the company's deposit base was comprised of 32.3% in relationship-based transaction accounts (noninterest-bearing checking, interest-bearing checking, and escrow accounts), 37.9% in CDs, 20.5% in money market deposit accounts, and 9.3% in other savings accounts. The company used the net deposit inflow and runoff from the loan portfolio to pay down borrowings by \$50.3 million and increase total cash and cash equivalents by \$30.3 million during the quarter. The following table displays the composition of total deposits for 1Q19, 4Q18, and 1Q18.

Deposit Composition (Dollars in thousands)

	1Q19	%	4Q18	%	1Q18	%	Q/Q	Y/Y
Noninterest-bearing checking	\$ 228,067	17.3%	\$ 221,107	17.4%	\$ 177,251	20.7%	3.1%	28.7%
Interest-bearing checking	\$ 181,402	13.7%	\$ 151,103	11.9%	\$ 130,002	15.2%	20.1%	39.5%
Savings	\$ 122,940	9.3%	\$ 122,344	9.6%	\$ 76,843	9.0%	0.5%	60.0%
Money market	\$ 270,718	20.5%	\$ 282,595	22.2%	\$ 214,676	25.0%	-4.2%	26.1%
CDs < 250,000	\$ 422,563	32.0%	\$ 397,288	31.2%	\$ 203,712	23.8%	6.4%	107.4%
CDs > 250,000	\$ 78,342	5.9%	\$ 86,357	6.8%	\$ 41,944	4.9%	-9.3%	86.8%
Escrow accounts	\$ 17,518	1.3%	\$ 13,425	1.1%	\$ 13,050	1.5%	30.5%	34.2%
Total deposits	\$ 1,321,550	100%	\$ 1,274,219	100%	\$ 857,478	100%	3.7%	54.1%

Source: Company data

*Percentages may not total to 100% due to rounding

Core Margin Stable on a LQ Basis

The reported net interest margin (NIM) increased by 11 basis points on a LQ basis to 4.70% in 1Q19 from 4.59% in 4Q18, while we had projected margin compression of 3 basis points. Excluding discount accretion on acquired loans, the core NIM was flat at 4.55% in both 1Q19 and 4Q18. The yield on average interest-earning assets increased by 20 basis points (to 5.93% in 1Q19 from 5.73% in 4Q18), while the weighted average cost of interest-bearing liabilities increased by 10 basis points (to 1.33% in 1Q19 from 1.23% in 4Q18). The LQ margin expansion combined with an 11.6% increase in average interest-earning assets (driven by the acquisition of Anchor Bancorp) led to an increase of 11.8% in net interest income to \$17.7 million in 1Q19 from \$15.8 million in 4Q18.

LQ Increase in Noninterest Income

The following table compares the composition of noninterest income in 1Q19 with the composition of noninterest income in 4Q18 (excluding the \$7.4 million bargain purchase gain) and 1Q18. Total noninterest income in 1Q19 increased by \$559,000 on a LQ basis and decreased by \$469,000 on a year-over-year basis. The LQ increase in noninterest income was driven by higher service charges and fee income due to deposit accounts assumed in the acquisition in Anchor Bancorp in 4Q18. The year-over-year decrease in noninterest income was driven by a lower level of gains on the sale of loans. Noninterest income amounted to 20.5% of total revenue in 1Q19. Moving forward, we expect mortgage-banking income to decrease further in 2019, compared with year-ago levels, due to continued pressure on lending volumes and gain on sale premiums in the current interest rate environment.

Noninterest Income (Dollars in thousands)

	1Q19	%	4Q18	%	1Q18	%	Q/Q	Y/Y
Service charges and fee income	\$ 1,658	36.4%	\$ 1,188	29.7%	\$ 659	13.1%	39.6%	151.6%
Gain on sale of loans	\$ 2,397	52.6%	\$ 2,394	59.9%	\$ 3,978	79.2%	0.1%	-39.7%
Loss on retirement of equipment	\$ -	0.0%	\$ (71)	-1.8%	\$ -	0.0%	-100.0%	NA
Gain on sale of investment securities	\$ -	0.0%	\$ 57	1.4%	\$ 113	2.2%	-100.0%	-100.0%
Earnings on cash surrender value of BOLI	\$ 215	4.7%	\$ 155	3.9%	\$ 82	1.6%	38.7%	162.2%
Other noninterest income	\$ 285	6.3%	\$ 273	6.8%	\$ 192	3.8%	4.4%	48.4%
Total noninterest income	\$ 4,555	100%	\$ 3,996	100%	\$ 5,024	100%	14.0%	-9.3%

Source: Company data

*Percentages may not total to 100% due to rounding

Excellent Credit Quality

Total nonperforming assets (NPAs) decreased to \$3.2 million, or 0.19% of total assets, as of March 31 from \$4.9 million, or 0.28% of total assets, at December 31. NPAs were comprised of \$3.0 million of nonperforming loans and \$167,000 of other real estate owned (OREO) as of March 31. FS Bancorp recorded net charge-offs (NCOs) of \$1.3 million, or 0.37% of average loans annualized, in 1Q19, compared with net recoveries of \$14,000, or less than 0.01% of average loans annualized, in 4Q18. NCOs during the quarter were driven by the charge-off of one commercial line of credit totaling \$1.2 million. The company recorded a loan loss provision of \$750,000 in 1Q19 and the percentage of reserves to total loans decreased to 0.91% at March 31 from 0.93% at December 31, due to NCOs during the quarter. The recorded discount on loans assumed in the acquisition of Anchor Bancorp totaled \$4.5 million as of March 31, down from \$5.3 million at December 31. The allowance for loan losses of \$11.8 million, plus the fair value discount of \$4.5 million amounts to 1.26% of total loans as of March 31. Reserve coverage remains strong at ~397% total nonperforming loans at March 31. The company's credit risk remains manageable.

Strong Capital Ratios

As shown in the following table, the company's subsidiary, 1st Security Bank of Washington, has maintained strong capital ratios over the past several quarters.

Capital Ratios - 1st Security Bank of Washington

	1Q19	4Q18	3Q18	2Q18	1Q18
Tier 1 Leverage	11.01%	10.67%	11.73%	12.23%	12.58%
Tier 1 Risk-Based	13.81%	12.62%	13.95%	14.32%	14.96%
Total Risk-Based	14.73%	13.52%	15.20%	15.57%	16.21%
Common Equity Tier 1	13.81%	12.62%	13.95%	14.32%	14.96%

Source: Company data

At the holding company level, FS Bancorp reported total risk-based capital (TRBC), Tier 1 leverage, and common equity Tier 1 (CET1) ratios of 13.86%, 11.06%, and 12.98%, respectively, as of March 31. The company's tangible common equity (TCE) ratio was robust at 10.98% at March 31. During 1Q19, the company repurchased 5,436 shares of common stock at an average price of \$47.30 per share, which leaves 219,564 shares remaining under the current authorization. The company currently pays a quarterly cash dividend of \$0.15 per share, which represents a dividend yield of 1.2%. The company's capital ratios are strong and FS Bancorp remains well positioned for future growth.

Investment Summary

FS Bancorp reported core operating EPS of \$1.21 in 1Q19, which was below our estimate by \$0.08 per share. While net loans declined during the quarter, due to elevated payoff activity, the company generated strong deposit growth and maintained the core NIM was flat on a LQ basis. Credit quality is excellent and capital ratios remain robust. Additionally, the integration of Anchor Bancorp is on track and should be attractive both strategically and financially for FS Bancorp.

FSBW shares are currently trading at 9.5x our 2019E EPS, 8.9x our 2020E EPS, and 130% of TBVPS compared with median valuations of 12.6x 2019E EPS, 11.7x 2020E EPS, and 170% of TBVPS for our West region coverage universe of 26 community banks and thrifts. While we believe some discount to the peer group is warranted given the company's emphasis on mortgage-banking revenue, which can be volatile depending on the movement of market interest rates and gain on sale premiums, we believe that the extent of the discount is unwarranted given the company's solid profitability metrics, including an above-average core NIM, strong loan growth over the LTM, excellent credit quality, and robust capital ratios. We are raising our 12-month target price by \$2.00 to \$58.00, which represents 10.7x our 2019E EPS, 10.0x our 2020E EPS, and 130% of pro forma TBVPS of \$44.70 one year from now. Our target price assumes that shares continue to trade reasonably in line with the current valuation based on TBVPS as TBVPS increases due to earnings. With ~14% total return potential given our target price and the current dividend yield of 1.2%, we maintain our **Outperform** rating.

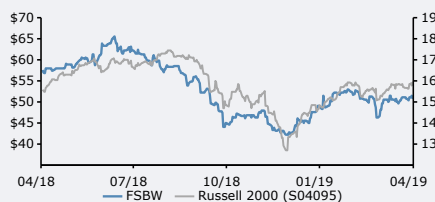
FS Bancorp, Inc.

	Annual				2018 Quarterly				2019 Quarterly				2020 Quarterly			
	2017A	2018A	2019E	2020E	1Q18A	2Q18A	3Q18A	4Q18A	1Q19A	2Q19E	3Q19E	4Q19E	1Q20E	2Q20E	3Q20E	4Q20E
Income Data: (\$ in Millions)																
Net Interest Margin	4.65%	4.62%	4.62%	4.58%	4.76%	4.58%	4.55%	4.59%	4.70%	4.59%	4.59%	4.60%	4.59%	4.57%	4.57%	4.59%
Avg. Earning Assets	\$886	\$1,128	\$1,591	\$1,703	\$979	\$1,045	\$1,120	\$1,367	\$1,525	\$1,571	\$1,618	\$1,650	\$1,667	\$1,692	\$1,717	\$1,734
Net Interest Income	\$41.2	\$52.1	\$73.3	\$78.0	\$11.5	\$11.9	\$12.9	\$15.8	\$17.7	\$18.0	\$18.6	\$19.0	\$19.1	\$19.3	\$19.6	\$19.9
Loan Loss Provision	\$0.8	\$1.5	\$2.9	\$3.2	\$0.4	\$0.5	\$0.5	\$0.3	\$0.8	\$0.7	\$0.7	\$0.7	\$0.8	\$0.8	\$0.8	\$0.8
Noninterest Income	\$5.7	\$11.8	\$8.8	\$9.1	\$0.9	\$0.9	\$1.0	\$9.0	\$2.2	\$2.2	\$2.2	\$2.2	\$2.2	\$2.3	\$2.3	\$2.3
Gain/Loss on Loans	\$18.0	\$14.9	\$10.9	\$10.2	\$4.0	\$4.7	\$3.8	\$2.4	\$2.4	\$3.1	\$2.9	\$2.5	\$2.3	\$2.9	\$2.7	\$2.3
Gain/Loss on Sale of Securities	\$0.4	\$0.2	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Total Revenues	\$65.3	\$78.9	\$92.9	\$97.3	\$16.5	\$17.5	\$17.7	\$27.2	\$22.2	\$23.3	\$23.7	\$23.7	\$23.7	\$24.5	\$24.6	\$24.5
Noninterest Expense	\$44.0	\$48.8	\$58.7	\$60.7	\$11.0	\$12.1	\$11.8	\$13.8	\$14.8	\$14.7	\$14.5	\$14.7	\$14.8	\$15.1	\$15.3	\$15.5
Pre-Tax Income	\$20.6	\$28.6	\$31.3	\$33.4	\$5.1	\$4.9	\$5.4	\$13.1	\$6.7	\$7.9	\$8.4	\$8.3	\$8.0	\$8.6	\$8.5	\$8.2
Taxes	\$6.5	\$4.2	\$6.8	\$7.2	\$0.8	\$0.7	\$1.3	\$1.4	\$1.5	\$1.7	\$1.8	\$1.8	\$1.7	\$1.9	\$1.8	\$1.8
Extraordinary Items	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Income	\$14.1	\$24.3	\$24.5	\$26.2	\$4.3	\$4.3	\$4.1	\$11.7	\$5.2	\$6.2	\$6.6	\$6.5	\$6.3	\$6.8	\$6.7	\$6.4
Avg. Shares	3.3	3.9	4.5	4.5	3.8	3.8	3.8	4.1	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
EPS (Reported)	\$4.28	\$6.29	\$5.43	\$5.81	\$1.15	\$1.13	\$1.07	\$2.83	\$1.15	\$1.37	\$1.46	\$1.45	\$1.40	\$1.50	\$1.48	\$1.43
Per Share Data:																
Book Value (Stated)	\$33.15	\$40.08	\$45.28	\$50.49	\$33.94	\$34.88	\$35.82	\$40.08	\$41.42	\$42.65	\$43.98	\$45.28	\$46.53	\$47.88	\$49.21	\$50.49
Book Value (Tang.)	\$32.17	\$38.18	\$43.55	\$48.79	\$32.98	\$33.95	\$34.91	\$38.18	\$39.57	\$40.84	\$42.20	\$43.55	\$44.70	\$46.09	\$47.47	\$48.79
Dividends	\$0.43	\$0.53	\$0.60	\$0.64	\$0.11	\$0.14	\$0.14	\$0.14	\$0.15	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16
Profitability Ratios:																
Return on Avg Assets	1.53%	2.07%	1.46%	1.46%	1.70%	1.57%	1.39%	3.27%	1.29%	1.49%	1.54%	1.49%	1.43%	1.52%	1.47%	1.40%
Return on Avg Equity	14.81%	18.16%	12.79%	12.21%	14.08%	13.53%	12.29%	30.06%	11.30%	13.12%	13.61%	13.04%	12.25%	12.81%	12.29%	11.52%
Efficiency Ratio	67.35%	61.86%	63.22%	62.36%	66.80%	69.24%	67.03%	50.76%	66.52%	63.17%	61.43%	61.95%	62.65%	61.45%	62.08%	63.26%
Overhead Ratio	4.77%	4.16%	3.49%	3.37%	4.34%	4.49%	4.08%	3.86%	3.67%	3.54%	3.39%	3.36%	3.36%	3.36%	3.36%	3.38%
Balance Sheet:																
Total Assets	\$982	\$1,622	\$1,760	\$1,849	\$1,044	\$1,133	\$1,191	\$1,622	\$1,626	\$1,675	\$1,725	\$1,760	\$1,777	\$1,804	\$1,831	\$1,849
Total Loans	\$773	\$1,326	\$1,404	\$1,475	\$818	\$894	\$961	\$1,326	\$1,297	\$1,336	\$1,376	\$1,404	\$1,418	\$1,439	\$1,460	\$1,475
Allowance for loan losses	\$11	\$12	\$13	\$16	\$11	\$12	\$12	\$12	\$12	\$12	\$13	\$13	\$14	\$15	\$15	\$16
Intangible Assets	\$4	\$9	\$8	\$8	\$4	\$3	\$3	\$9	\$8	\$8	\$8	\$8	\$8	\$8	\$8	\$8
Total Deposits	\$830	\$1,274	\$1,430	\$1,503	\$857	\$870	\$945	\$1,274	\$1,322	\$1,361	\$1,402	\$1,430	\$1,444	\$1,466	\$1,488	\$1,503
Preferred Equity	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Common Equity	\$122	\$180	\$203	\$227	\$125	\$129	\$133	\$180	\$186	\$191	\$197	\$203	\$209	\$215	\$221	\$227
Total Equity	\$122	\$180	\$203	\$227	\$125	\$129	\$133	\$180	\$186	\$191	\$197	\$203	\$209	\$215	\$221	\$227
Average Balances: (\$ in Millions)																
Avg. Assets	\$923	\$1,174	\$1,685	\$1,803	\$1,017	\$1,083	\$1,162	\$1,433	\$1,615	\$1,663	\$1,713	\$1,747	\$1,765	\$1,791	\$1,818	\$1,836
Avg. Loans	\$749	\$979	\$1,407	\$1,505	\$845	\$900	\$971	\$1,201	\$1,348	\$1,389	\$1,431	\$1,459	\$1,474	\$1,496	\$1,518	\$1,533
Avg. Deposits	\$778	\$919	\$1,350	\$1,444	\$851	\$836	\$881	\$1,108	\$1,294	\$1,333	\$1,373	\$1,400	\$1,414	\$1,435	\$1,457	\$1,471
Avg. Common Equity	\$95	\$134	\$192	\$215	\$123	\$126	\$132	\$156	\$184	\$189	\$194	\$200	\$206	\$212	\$218	\$224
Avg. Loans/Deposits	96.2%	106.5%	104.2%	104.2%	99.3%	107.6%	110.2%	108.4%	104.2%	104.2%	104.2%	104.2%	104.2%	104.2%	104.2%	104.2%
Avg. Equity/Assets	10.30%	11.43%	11.38%	11.92%	12.08%	11.62%	11.35%	10.88%	11.38%	11.35%	11.35%	11.46%	11.68%	11.83%	11.98%	12.18%
Growth Rates:																
Average Earning Assets	15.85%	27.33%	41.06%	7.01%	3.19%	6.72%	7.19%	22.00%	11.58%	3.00%	3.00%	2.00%	1.00%	1.50%	1.50%	1.00%
Average Loans	24.48%	30.80%	43.67%	7.01%	3.00%	6.50%	7.93%	23.67%	12.28%	3.00%	3.00%	2.00%	1.00%	1.50%	1.50%	1.00%
Average Deposits	15.12%	18.08%	46.88%	7.01%	3.78%	-1.69%	5.35%	25.78%	16.76%	3.00%	3.00%	2.00%	1.00%	1.50%	1.50%	1.00%
Noninterest Income	30.79%	107.02%	-25.86%	4.06%	-17.07%	1.07%	4.35%	810.47%	-75.91%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Noninterest Expense	13.02%	11.02%	20.28%	3.28%	-0.42%	10.04%	-2.52%	16.75%	7.06%	-0.50%	-1.25%	1.00%	1.00%	1.50%	1.50%	1.50%

Source: Company Documents and Raymond James Research

COMPANY DESCRIPTION

FS Bancorp, Inc., a Washington corporation, is the holding company for 1st Security Bank of Washington. The bank provides loan and deposit services to customers who are predominantly small and middle-market businesses and individuals in western Washington through its 21 bank branches, one administrative office that accepts deposits, seven loan production offices in various suburban communities in the greater Puget Sound area, and one loan production office in the market area of the Tri-Cities, Washington. The company had \$1.6 billion in total assets as of March 31, 2019.



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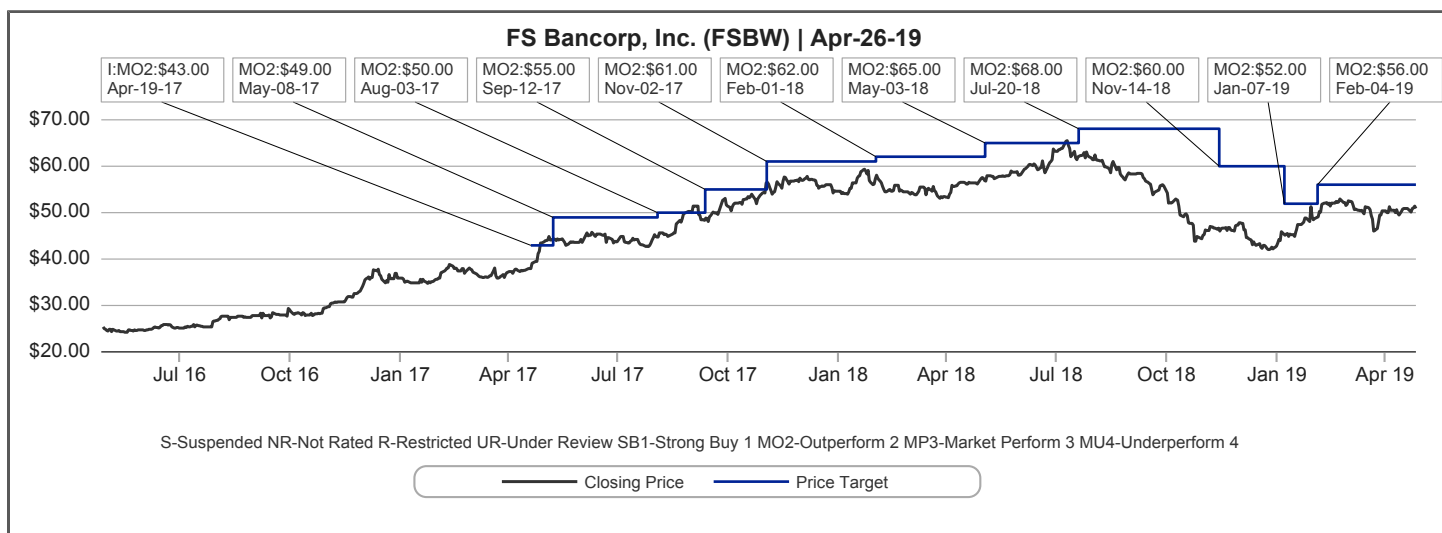
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FS Bancorp, Inc.:

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FS Bancorp, Inc.:

Company-Specific Risks for FS Bancorp, Inc.

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